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IN THE

United States Supreme Court

October Term 1949.

No. 455

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,

Petitioner,

vs.

HAZELTINE RESEARCH, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT AND BRIEF IN SUPPORT THEREOF.

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IN THE

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No.

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,
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vs.

HAZELTINE RESEARCH, INC.,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT AND BRIEF IN SUPPORT THEREOF.

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

Your petitioner, Automatic Radio Manufacturing Company, Inc., respectfully prays for a writ of certiorari to the United States Court of Appeals for the First Circuit to review the judgment of that Court entered August 22, 1949 affirming the judgment of the District Court of the United States for the District of Massachusetts (Judge FORD).

The transcript of the record in the case, including proceedings in the Court of Appeals, is furnished herewith in accordance with the rules of this Court.

Summary and Short Statement of the Subject Matter Involved.

1. The Court below, Judge Woodbury dissenting (R. 329), affirmed an interlocutory judgment (R. 293) granted on motion for summary judgment (R. 76), ordering royalty payments, an accounting, and an injunction against future breach of a patent license agreement for the manufacture and sale of radio receivers under a pool of 570 patents and 200 patent applications (R. 79) controlled by respondent.

2. Respondent is a successor in interest to all of the patent rights previously held by its parent, Hazeltine Corporation. It currently has outstanding some 130 "standard" licenses to manufacturers of radio sets (R. 79).

3. Respondent and its associated companies, all of which are under common ownership, will be referred to collectively as "Hazeltine", as was done by Judge Ford in his opinion (R. 297) and by the Court below (R. 314). Petitioner will be referred to as "Automatic Radio".

4. Hazeltine's motion for summary judgment asserted that four of its patents were used by Automatic Radio (R. 119-168). This was disputed (R. 199-200; 207-246; 277-282; 289-292), raising a substantial issue of fact which precluded recovery on summary judgment for the use of patents (Rule 56(c) F. R. C. P.). Summary judgment was nevertheless granted because Hazeltine's "standard" licenses require the payment of royalties on all radio sets made, even though none of its patents is used in any of them (R. 299-300). The enforcement of royalties for structures outside the patents is asserted by Automatic Radio to be a misuse of pooled patents which precludes a recovery. This is the specific ground on which Judge Woodbury dissented from the decision below (R. 330).

5. Hazeltine attempts to restrict the use to which radio receivers may be put, after purchase from its licensees by the public through retail stores, by requiring a restrictive use notice to be placed on every set (R. 40; Art. VI, Sec. 2). This is asserted by Automatic Radio to be another misuse of patents precluding a recovery.

6. Automatic Radio denies that it is using in its sets any valid patent controlled by Hazeltine (R. 46, 195), and asserts the right to challenge the validity of any patent Hazeltine asserts it is using, in defense of a suit for royalties under the pool of patents.

Statement of Jurisdiction.

This Court is believed to have jurisdiction to review the judgment below under the provisions of 28 U. S. C. 1254 and 2101(c). The judgment below was entered August 22, 1949 (R. 330).

The Questions Presented.

1. Is it a misuse of patents by the administrator of a pool of 570 patents and 200 patent applications in the radio art, to force the radio industry and the public, by means of its "standard" licenses outstanding to 130 radio manufacturers, to pay royalties on the entire production of its licensees, amounting to tens of millions of radio sets, even though none of the patents is used? This question should be answered yes.

2. Can the owner of a patent, by means thereof, restrict the use made of a device manufactured under the patent, after the device has passed into the hands of a purchaser in the ordinary channels of trade, and full consideration paid therefor? This question should be answered no.

3. Can a patent owner, merely by a "license notice" attached to a device made under the patent, and sold in the ordinary channels of trade, place an enforceable restriction on the purchaser thereof as to the use to which the purchaser may put the device? This question should be answered no.

4. Is it a misuse of patents by the administrator of a pool of 570 patents and 200 patent applications to require its licensees to place restrictive use notices on millions of radio sets sold to the public across the counters of retail stores? This question should be answered yes.

5. May a licensee, sued for royalties under a pool of 570 patents, challenge the validity of the patents he is charged with using, in defense of the suit? This question should be answered yes.

Reasons Relied on For the Allowance of the Writ.

1. The questions presented are of enormous public importance.

2. The decision below is in conflict with applicable decisions of this Court.

WHEREFORE your petitioner respectfully prays that a writ of certiorari issue out of and under the seal of this Court directed to the United States Court of Appeals for the First Circuit; and that this Court review and correct the erroneous decision of that Court.

Respectfully submitted,

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Of Counsel.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

Opinions of the Courts Below.

The opinion of the District Court appears at R. 296 and is reported at 77 F. Supp. 493.

The opinion of the Court of Appeals appears at R. 313 and is reported at 82 U. S. P. Q. 324 and 176 F. (2d) 799.

Statement of Jurisdiction.

This Court is believed to have jurisdiction to review the judgment below under the provisions of 28 U. S. C. 1254 and 2101(c). The judgment below was entered August 22, 1949 (R. 330).

Statement of the Case.

1. In about 1923, Professor Hazeltine of the Stevens Institute of Technology invented the "Neutrodyne" circuit for radio receivers for which he was granted three United States patents, Nos. 1,450,080, 1,489,228 and 1,533,858 (R. 172). Hazeltine Corporation was organized to exploit these patents. All three patents have been held valid and infringed by the courts:

Hazeltine v. *Electric Service Engineering Corp.*, 18 F. (2d) 662 (S. D. N. Y., 1926);

Hazeltine v. *A. H. Grebe*, 21 F. (2d) 643 (E. D. N. Y., 1927);

Hazeltine v. *National Carbon*, 6 U. S. P. Q. 235 (E. D. N. Y., 1930); affirmed, 45 F. (2d) 573 (C. C. A. 2, 1931);

Hazeltine v. *Wildermuth*, 34 F. (2d) 635 (C. C. A. 2, 1929), cert. den. 280 U. S. 610;

Hazeltine v. *Radio Corporation of America*, 52 F. (2d) 504 (S. D. N. Y., 1931); affirmed, 59 F. (2d) 203 (C. C. A. 2, 1932).

Millions of dollars were collected in royalties by Hazeltine on these three patents (R. 173) all of which have now long since expired and all of which were rendered obsolete in 1927 by the screen grid tube (R. 173).

2. Before and since 1927 Hazeltine acquired patent rights from other companies and individuals, forming a vast pool of radio patents owned by it or under which it has licensing rights, which now include some 570 patents and 200 patent applications (R. 79). Most of these are listed at R. 93-101 with the names of the owners in most cases.

3. Hazeltine has continuously collected royalties from a large segment of the radio industry since the introduction of the Neutrodyne circuit in about 1924. It currently has 130 radio manufacturing companies as licensees (R. 79). These royalties have amounted to many additional millions of dollars since the Neutrodyne patents became obsolete (R. 174; R. 79-80; R. 249).

4. Hazeltine has, however, spent only a very small percentage of the money it has received as royalties for research on radio receivers (R. 173(h); 248), with the result that none of its patents has any value. Every patent on which it has sued since the Neutrodyne patents has been held invalid or not infringed or both (R. 179). These patents, and the citations, are:

Patent No. 1,648,808 was held invalid in *Hazeltine* v. *Radio Corporation of America*, 52 F. (2d) 504 (S. D. N. Y.,

1931); invalid and not infringed in *Hazeltine* v. *Sears Roebuck*, 5 F. S. 674 (S. D. N. Y., 1933); and invalid on appeal, 79 F. (2d) 238 (C. C. A. 2, 1935).

Patents Nos. 1,755,114 and 1,755,115 were held not infringed in *Hazeltine* v. *Sears Roebuck*, 5 F. S. 674 (S. D. N. Y., 1933); and invalid and not infringed on appeal, 79 F. (2d) 238 (C. C. A. 2, 1935).

Patent No. 1,879,863 was held invalid in *Hazeltine* v. *Abrams*, 7 F. S. 908 (E. D. N. Y., 1934) and invalid on appeal, 79 F. (2d) 329 (C. C. A. 2, 1935); and not infringed in *Hazeltine* v. *R. E. B. Service Corp.*, 8 F. S. 100 (E. D. N. Y., 1934). The reissue thereof, Re. 19,744, was held valid and infringed in *Detrola* v. *Hazeltine*, 117 F. (2d) 238 (C. C. A. 6, 1940), reversed at 313 U. S. 259.

Patents Nos. 1,913,604 and 2,022,514 were held not infringed in *Hazeltine* v. *Crosley*, 39 F. Supp. 775 (S. D. Ohio, W. D., 1941); affirmed, 130 F. (2d) 344 (C. C. A. 6, 1942).

Patent No. 2,111,483 was held invalid and not infringed in *Hazeltine* v. *General Motors*, 38 F. S. 880 (D. Del., 1941) and invalid on appeal, 131 F. (2d) 34 (C. C. A. 3, 1942).

Patent No. 1,710,035 was held not infringed in *Hazeltine* v. *Emerson*, 129 F. (2d) 580 (C. C. A. 2, 1942).

Patents Nos. 1,951,685 and 2,041,273 were held invalid in *Hazeltine* v. *General Motors*, 72 F. S. 138 (E. D. Mich., 1947), affirmed at 170 F. (2d) 6 (C. A. 6, 1948), second petition for rehearing denied, 171 F. (2d) 680 (C. A. 6, 1948), certiorari denied 336 U. S. 938.

5. Hazeltine has kept its licensees in line by a succession of suits against non-licensees and their dealers (R. 188-189). It actually sued 26 Atwater-Kent dealers simultaneously (34 F. (2d) 50). Despite these suits some large companies, who could afford to defend suits of this magnitude,

have refused to take a Hazeltine license or pay tribute to Hazeltine for many years, going back to 1927 (R. 79; R. 178; R. 249-251).

6. The 10 worthless post-Neutrodyne patents listed in No. 4 are admittedly the best patents Hazeltine owns. It has been able to continue to levy tribute from the radio industry without a single valid patent to warrant royalty payments, only because on each trial Hazeltine has spent more than $100,000, thus keeping each licensee in perpetual fear of a suit of this magnitude directed against it, if it failed to renew its license.

Mr. Woodworth's affidavit at R. 188 quotes the following statement of Mr. Laurence B. Dodds, Executive Vice-President and trial attorney of Hazeltine, made in open court in 1947 at the trial of patents 1,951,685 and 2,041,273 in the cases of *Hazeltine Corporation* v. *General Motors Corporation* in Michigan, Civil Action Nos. 2426 and 2436 (reported at 72 F. Supp. 138), from the stenographic transcript of the trial of those cases at pages 1167 to 1169 (R. 188-189):

> "Now, contrary to your Honor's impression, it is not the weak patents which get to the court, it is the strong patents, and the reason for that is economics. We cannot afford, because it is economically unsound, to bring an infringement action on a minor patent. Each of these patents which has been stricken down enjoyed the prima facie validity of a grant by the Patent Office. Each was evaluated by our patent counsel highly enough to risk an expensive infringement litigation, which we have found runs in excess of $100,000 per case . . .
>
> . . . . . .
>
> "Now, it has been testified that we own about 450 patents. Of these somewhat less than 100 are in use, and of those only a handful are of the importance of the patents which we have here in suit."

The patents involved in that suit were in their turn held invalid (72 F. Supp. 138; affirmed 170 F. (2d) 6; second petition for rehearing denied, 171 F. (2d) 680); certiorari denied 336 U. S. 938.

7. Because of the admitted pathetic weakness of its patent position Hazeltine, by its own assertions (Binns, Hazeltine's president, R. 81, (f)), in 1937 abandoned any attempt to collect royalties for the use of its patents. Instead, it has provided in its "standard" license contracts since 1937 for the payment of royalties on all sets made by its licensees regardless of patents. (Judge Ford's opinion, R. 299; Hazeltine's motion for summary judgment, R. 76, paragraph (b); license agreement, R. 5, Article IV, Section 1; Binns, R. 81-82(f); Opinion of Court below, R. 319-320.) The royalties demanded in this action on Hazeltine's worthless patents amount to 25% of Automatic Radio's net profits for the years 1946 and 1947 (R. 178).

8. As of September 1, 1942 Hazeltine issued to Automatic Radio the license here in issue, under all the patents and patent applications in its pool, settling previous differences between them (Binns, R. 83) and exchanging mutual releases (R. 42). The license agreement is printed at R. 5.

9. The previous differences also involved the payment of royalties on Hazeltine's worthless patents. Hazeltine had previously sued for royalties in the Superior Court for Suffolk County, Massachusetts. The considered advice of Automatic Radio's patent counsel at that time was that it was not using any Hazeltine patent in its sets (R. 202). Nevertheless Automatic Radio, being financially unable to defend the suit (R. 202), a final decree was entered therein on December 3, 1941 (R. 113) which decreed that Automatic Radio admitted that all of Hazeltine's patents were valid (R. 116). An action is now pending to reopen and

set aside that decree as in violation of public policy (*Pope v. Gormully*, 144 U. S. 224 (1892); *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U. S. 661, 670 (1944)) and void (*Windsor v. McVeigh*, 93 U. S. 274 (1876)).

10. In support of its motion for summary judgment, Hazeltine has asserted the use by Automatic Radio of only four of its patents, namely, Wheeler patents No. 1,951,685, 2,041,273, 1,958,627 and 2,015,327 (Wheeler, R. 119-168). This is denied by Automatic Radio (R. 195, No. 12, 207-246). The first two have since been invalidated in the *General Motors* case, 72 F. Supp. 138, affirmed at 170 F. (2d) 6, second petition for rehearing denied 171 F. (2d) 680, certiorari denied 336 U. S. 938.

11. Hazeltine's license agreements require its licensees to apply to each of their sets sold to the public a patent marking notice stating (R. 14, Sec. 2):

> "'Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use, under one or more of the following patents and under pending applications:' followed by the word 'Patent' and the numbers of the patents which are, in the opinion of Licensor, involved in apparatus of the types licensed hereunder manufactured by one or more licensees of Licensor."

Specification of Errors.

The errors which petitioner will urge if this petition is granted are that the Court of Appeals for the First Circuit erred in affirming the judgment of the District Court, and in failing to answer the first, fourth and fifth question presented in the affirmative and the second and third questions in the negative (see pp. 3-4).

Summary of Argument.

The argument will follow the reasons relied on for the allowance of the writ as stated on page 4 hereof and in the index.

POINT I.

The questions presented are of enormous public importance.

The First Question Presented.

Hazeltine has misused its patents by requiring royalties on its licensees' *entire production* of radio sets, whether its patents are used or not.

The people of America have paid tribute to Hazeltine on tens of millions of radio receivers, under the guise of patent royalties, amounting to millions of dollars. Hazeltine has managed to levy this tribute by multiplying its patents and its licenses until practically the whole industry has been regimented. Through its basic patents it has thus perpetuated its control over the industry long after the basic patents expired, and twenty years after they became obsolete.

A single patent is a potent weapon of business aggression. Its potency is enhanced if it is related to a mass production industry where the penalty for guessing wrong as to its validity or infringement may be the complete ruin of a business. It has even greater power when that industry is, like the radio industry, based upon a complex technology. The fact that the decision of validity of a patent requires the subjective appraisal by the courts of a change made in a highly technical field makes the matter of guessing as to validity as uncertain as a wrong guess is disastrous.

When the patent is backed by strong finances in the hands of an aggressive, litigious owner, its power is multiplied many fold. When the patent owner pools his patent with others to get under his single control the vast number of 570 patents and 200 applications, all relating to a single, technically complex, mass production industry, he is in a position to do exactly what Hazeltine has done here—force that industry to pay tribute without regard to the patents. Every patent may be invalid, no patent may be used, but every set must pay. And it must pay, however poor the patents, because of the cost of litigation, or the disastrous consequences if a single suit should be decided wrong without being able to get a review by this Court, or both.

The inherent viciousness in such an arrangement, and the dangers inherent in its legal sanction, may perhaps best be demonstrated by applying it to an apparently extreme and dramatic example.

Governor Dewey prosecuted racketeers in New York for enforcing the payment of royalties on every suit of clothes dry cleaned in the New York area by means of stink bombs, acid, murder, etc. Suppose those racketeers had owned the Hazeltine patents—radio patents—and had had each dry cleaning establishment sign Hazeltine's standard license, changed only to call for royalties on each suit cleaned whether the patents were used or not. If in a suit for enforcement of that license against a dry cleaning establishment this defense of misuse of patents had been set up, the decision below is, in the language of Judge Foan (R. 300, 319), to the effect that this is a proper practice, as a "convenient mode of computing the cost of the privilege of using the patents should the defendant desire to make such use". True, the dry cleaners were terrorized into signing the standard printed form, but so was Automatic Radio

(R. 202). True, the patents do not validly apply to dry cleaning; but neither do they validly apply to the manufacture of radio receivers. The example chosen may appear to be extreme but it is not. There is no place to draw the line between what is covered by a patent and what is not covered except by the scope of the patents themselves. The analogy is perfect. See *Stewart-Warner* v. *Staley*, 42 F. Supp. 140, (4) at page 146 (W. D. Pa., 1941, Judge SCHOONMAKER).

The contention that Hazeltine's block booking arrangement is justified by convenience because of the burden involved in attempting to find out if any of its patents is used, seems to us to be ridiculous. Mere size does not give a big corporation any special rights or alter public policy with respect to it. If it operates in every state it must observe the laws of every state, however burdensome. Similarly, multiplication of patents does not enlarge the monopoly beyond the limits of the patents themselves. If it is a burden to Hazeltine to find out if any money is actually due it for use of its patents, that is a cross it must bear.

Under Hazeltine's arrangement the royalties bear no relation to the use of patents and are not a measure (convenient or otherwise) of such use. A licensee might discontinue a model using a Hazeltine patent and substitute a new model using none. If the new model is more popular, he has to pay more royalties even though his use of the patents is less. This Court has said that a patent monopoly may not be enlarged

> "by reason of the fact that it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant." (*B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498.)

This Court has expressed its recognition of the danger of industry regimentation and monopoly power inherent in patent pools. In the case of *Transparent Wrap* v. *Stokes & Smith*, 329 U. S. 637, the Court said at page 646:

> "He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be regimented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee. See United Shoe Machinery v. La Chapelle, 212 Mass. 467, 99 N. E. 289."

Hazeltine has done exactly this. It has, however, added the new wrinkle of misusing the power of its pooled patents to funnel the fruits of an entire industry into its hands, *whether those patents are used or not.*

The importance of this question in this single case alone is sufficient to warrant review by this Court. Its importance to the entire radio industry is much greater.

Its importance to the public is enormous. There are in this country today many patent pools numbering thousands of patents and many more numbering hundreds. If Hazeltine's practice is sanctioned, and if it is not curbed at this time, a tidal wave of regimentation will sweep the country before this Court or Congress can apply a remedy for such abuses. Its importance is therefore almost beyond estimate.

The Second and Third Questions Presented.

We assert a patent owner may not control the uses of a patented device after its sale by the patent owner or his licensee.

These two questions are identical with the first two questions presented in the case of *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175 (1938), which two questions alone were again considered on rehearing at 305 U. S. 124 (1938). Their importance is attested by the fact that this Court has twice before considered them in the *General Talking Pictures* case, although leaving them unanswered on rehearing by a vote of 4 to 2. The vigorous dissenting opinion of Mr. Justice BLACK, in which Mr. Justice REED concurred, is further evidence of their importance. The Government, represented by then Solicitor General Jackson, considered them of sufficient importance to file a brief as *amicus curiae* on rehearing of that case in support of the negative answer here sought.

Their importance is also attested by the same considerations already discussed in connection with the first question. Tens of millions of radio sets have affixed thereto a label reading:

> "Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use * * *."

Obviously such marking would not be required if it was not profitable to Hazeltine to require it. It is profitable because Hazeltine grants "commercial" licenses for other uses (R. 289-290). Not satisfied with tribute on every home radio receiver made by 130 manufacturers whether they use its patents or not, Hazeltine uses this method of forcing the public to buy additional radio sets not needed

and not wanted, wherever the public wants to use such sets outside the limited fields permitted by Hazeltine.

If 100 million radio sets have been made bearing such a restrictive use notice, and the cost of the marking on each set is only one cent, then it has cost Hazeltine licensees to date one million dollars just to apply these marking notices to their sets. This expense would not be forced upon them by Hazeltine if it did not actually result in the purchase by the public of additional unwanted radios by preventing the use of radios already bought and paid for which the purchasers had a legal right to use for any purpose.

It should be noted that the enforcement of the restriction on use by Hazeltine does not require the policing of use in homes. That use is permitted. It requires policing only of commercial use such as in theatres, restaurants, amusement places, etc. Its enforcement is therefore feasible.

Until these questions are answered in the negative, restrictions on the use to which the public may put patented devices are bound to multiply. As patents multiply, the number of devices sold under patents increases. Probably no home appliances such as washing machines, vacuum cleaners, toasters, etc. are sold today which are not marked with patent numbers. Therefore more and more devices can be controlled in this manner, if such control is sanctioned. The absurdity of the logical and practical consequences of such restrictions is evident. A housewife might be compelled to have in her kitchen a separate refrigerator each for eggs, butter, milk, etc., and suit for infringement could be sucessfully maintained against her if she put the eggs in the wrong refrigerator.

The evils are great, and since the *General Talking Picture* case and the decision below, the practice is bound to grow. It is of the utmost importance that these questions be answered.

The Fourth Question Presented.

We assert that the requirement of restrictive use notices is a misuse of patents.

This question is closely allied to the second and third questions and is of ever greater importance. There is no way to curb the growing evil of such restrictive use notices other than by application of the doctrine of misuse. There is no other remedy available. This Court for more than 100 years, as will be pointed out under Point 2, has consistently held that attempts to restrict the use to which a device may be put in the hands of a purchaser after it is sold by the patentee or his licensee, constitute attempts to extend the monopoly of the patent beyond the scope of the patent itself. Nevertheless the practice continues because there is no penalty attached to its use. Unless some penalty is incurred by such practices they will continue to be used and will continue to be effective against "the ignorant and the timid" (*Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490, at page 499).

It is therefore of the utmost importance that this question be answered.

The Fifth Question Presented.

We assert that a licensee under a pool of 570 patents should not be denied the right to challenge validity when sued for royalties.

This question is allied to the first question presented in the reasons why its decision is important, and important at this time.

Patent pools are increasing and the number of patents in such pools is increasing with the increasing awareness

of the economic power of such pools and the increasing size of industrial empires. Billion dollar corporations are commonplace today, and the staffs of patent attorneys maintained by such corporations grow larger and larger. Many corporations employ dozens of patent attorneys just to solicit patents. The small competitor who is faced with a vast array of patents backed by powerful interests, is in many cases financially unable even to investigate the patents currently issuing, much less study the hundreds or thousands issued during the preceding 17 years.

Where patents are pooled not for use, but for coercing the public into dealing with the patent owner, this is a violation of the anti-trust laws: *Stewart-Warner* v. *Staley*, 42 F. Supp. 140, 146 (4) (W. D. Pa., 1941). Today many such pooled patents are therefore available for licensing. Where patents are pooled and backed by powerful interests, the business man, especially the small business man, must take a license for the reasons stated above in the discussion of the first question presented. Having taken a license, he must then pay, and therefore the public must pay, unwarranted tribute on invalid patents unless validity may be challenged. If he is bound by the language of the claims there may be in a single pool as many as 100,000 claims (as is true in the radio industry) with all the permutations of elements of various combinations claimed, available to the patent pool on which to base a claim for royalties. There is no way to turn without running into some patent, however clear its invalidity may be, because every microscopic variation in structure or arrangement is covered by a patent. No room is left for ordinary engineering progress.

The importance to the public of providing an adequate remedy in such a situation is great. A licensee should therefore be permitted to attack the validity of pooled patents.

POINT II.

The decision below is in conflict with applicable decisions of this Court.

The First Question Presented.

As to this question we assert that it is a misuse of patents to use a pool of 570 patents and 200 patent applications in the radio art to force the radio industry and the public to pay royalties on tens of millions of radio sets, even though none of the patents is used in any of them.

Judge WOODBURY's dissenting opinion on this question appears at R. 329-330.

A patent owner may not force a licensee to take a license and pay royalties under patents which are not used in order to get a license under patents which are used. That this cannot be done was decided by this Court in the case of copyrights, by analogy to the patent laws, in the case of *United States* v. *Paramount Pictures*, 334 U. S. 131. The Court said at page 156:

> "(5) Block-Booking.
>
> "Block-booking is the practice of licensing, or offering for license, one feature or group of features on condition that the exhibitor will also license another feature or group of features released by the distributors during a given period. The films are licensed in blocks before they are actually produced. All the defendants, except United Artists, have engaged in the practice. Block-booking prevents competitors from bidding for single features on their individual merits. The District Court held it illegal for that reason and for the reason that it 'adds to the monopoly of a single copyrighted picture that of another copyrighted picture which must be taken and

exhibited in order to secure the first.' That enlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials. See Ethyl Gasoline Corporation v. United States, 309 U. S. 436, 459; Morton Salt Co. v. Suppiger Co., 314 U. S. 488, 491; Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661, 665. The court enjoined defendants from performing or entering into any license in which the right to exhibit one feature is conditioned upon the licensee's taking one or more other features.

"We approve that restriction. The copyright law, like the patent statutes, makes reward to the owner a secondary consideration. In Fox Film Corp. v. Doyal, 286 U. S. 123, 127, Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, 'The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.' It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have. As the District Court said, the result is to add to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses."

The difference between the *Paramount* case and this case is that in the *Paramount* case the exhibitors were required to take and pay for poor pictures they did not want to use, in order to get good pictures they did want to use. In this case the licensees are required to take a license and pay royalties on poor patents they do not want to use and in fact do not use in order to get a license under other poor patents they do not use. Surely the vice of the *Paramount* case would not be cured by amending the block-booking arrangement to permit the exhibitor to take only good pictures, but still requiring him to pay for the bad pictures he did not take. Yet this is exactly what the Hazeltine license requires. Royalties must be paid on all sets whether poor patents are used or not—indeed whether any patents are used or not. Hazeltine does not contend in this case that in all of Automatic Radio's sets it uses more than four Hazeltine patents. Automatic Radio denies using any.

Hazeltine's licenses require the payment of royalties on sets which use none of its patents—that is, on industry products which are free of patents. This was condemned by this Court in the case of *United States v. U. S. Gypsum*, 333 U. S. 364, where, in the words of the Court (333 U. S. at 389):

> "* * * the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; * * *".

In that case the Court said at page 400:

> "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, *through royalties for the patents drawn from patent-free industry products* and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil

consequences." United States v. National Lead Co., 332 U. S. 319, 327 (73 U. S. P. Q. 498, 301); Hartford-Empire Co. v. United States, 323 U. S. 386, 406 (64 U. S. P. Q. 18, 28); Standard Oil Co. v. United States, 283 U. S. 163, 170-74 (9 U. S. P. Q. 6, 9-11); Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20." (Emphasis added.)

These two cases establish the law in direct conflict with the decision below.

The practice of permitting a patent owner to tax the entire production of his licensees, whether the patent is used in part or not at all, has been growing alarmingly.

Ohio Citizens Trust Co. v. *Air-Way Electric Appliance Corp.*, 56 F. Supp. 1010, 1012;

International Carbonic Engineering Co. v. *Natural Carbonic Products, Inc.*, 57 F. Supp. 248, 253;

American Optical Co. v. *New Jersey Optical Co.*, 58 F. Supp. 601, 606;

U. S. v. *U. S. Gypsum Co.*, 67 F. Supp. 397, 470 (D. C., D. C., 1946) reversed at 333 U. S. 364;

Pyrene Mfg. Co. v. *Urquhart*, 69 F. Supp. 555;

H-P-M Development Corp. v. *Watson-Stillman Co.*, 71 F. Supp. 906, 912.

All of these cases either cite no authority for their holding, or trace back their only authority to the *Ohio Citizens* case, which itself admittedly had no precedent for its ruling.

The Second and Third Questions Presented.

Under these questions we assert that Hazeltine cannot by means of its patents, or by a license notice attached to

tens of millions of radio sets purportedly made under those patents, restrict the uses to which the sets may be put after they are sold to the public in retail trade. The questions are identical with the first and second questions, respectively, in *General Talking Pictures* v. *Western Electric Co.*, 304 U. S. 175, on rehearing 305 U. S. 124, and substantially identical with the first question presented in *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, 508.

The decision below on this point is in direct conflict with the *Motion Picture Patents* case. In that case the Court said at 243 U. S. 515:

> "The exclusive right to 'vend' a patented article is derived from the same clause of the section of the statute which gives the exclusive right to 'use' such an article, and following the decision of the Button-Fastener case, it was widely contended as obviously sound, that the right existed in the owner of a patent to fix a price at which the patented article might be sold and resold under penalty of patent infringement. But this court, when the question came before it in Bauer v. O'Donnell, supra, rejecting plausible argument, and adhering to the language of the statute from which all patent right is derived, refused to give such a construction to the act of Congress, and decided that the owner of a patent is not authorized by either the letter or the purpose of the law to fix, *by notice*, the price at which a patented article must be sold after the first sale of it, declaring that the *right to vend is exhausted* by a single, unconditional sale, the article sold being thereby *carried outside the monopoly of the patent law* and rendered free of every restriction which the vendor may attempt to put upon it. *The statutory authority to grant the exclusive right to 'use' a patented machine is not greater, indeed, it is precisely the same, as the authority to grant the exclusive right to 'vend'*, and, looking to that authority, for the reasons stated in

> this opinion, we are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent, and that *it is not competent for the owner of a patent, by notice attached to its machine, to, in effect, extend the scope of its patent monopoly by restricting the use of it* to materials necessary in its operation, but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country *subject to conditions as to use* or royalty to be paid, to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice, and the cost, inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it." (Emphasis added.)

There is no difference between limiting the use of a patented machine to certain unpatented materials used with it, and prohibiting its use entirely for certain purposes.

The Court below held that this Court's decision of the case of *General Talking Pictures Corp.* v. *Western Electric Company*, 304 U. S. 175, was dispositive of this point. The Court said at R. 318:

> "General Talking Pictures Corp. v. Western Electric Company has not been overruled by the Supreme Court. * * * If the case is to be overruled, that must be done by the Supreme Court. Meanwhile it is our duty to follow it."

The *General Talking Pictures* case did not, in our view, overrule the *Motion Picture Patents* case. If it did, however, the full authority of the *Motion Picture Patents* case has been restored by this Court in the case of *United States* v. *Line Material*, 333 U. S. 287. In the *Line Material* case all three opinions of this Court cited the *Motion Picture Patents* case with approval in support of the proposition that

the sale of a patented device exhausts the control which may be exercised over it by the patent owner.

That the *General Talking Pictures* case did not overrule the *Motion Picture Patents* case appears from the opinions of the Court.

In the *General Talking Pictures* case the Court at the first hearing, 304 U. S. 175, by a vote of four to one, held only that use of a patented device sold by a licensee outside the scope of his license to one who bought with knowledge of the limitations in the license, was an infringement. It was held that neither the second or third question here was in the case, and the Court at page 182 expressly refused to answer the third question here (the second question there). Mr. Justice BLACK dissented. On rehearing, 305 U. S. 124, it was expressly held by a vote of four to two that the questions presented were not in the case and should not be answered. Messrs. Justices BLACK and REED dissented. The majority at both hearings consisted of Messrs. Justices McREYNOLDS, BRANDEIS, BUTLER and STONE.

The majority at the first hearing based its decision upon the "controlling" fact that the patented devices in that case, on which the restrictive use notices were placed, were sold outside the scope of the license with the knowledge of the purchaser, and that the purchaser was an infringer for that reason. The majority opinion said, at 304 U. S. 180-181:

> "Both parties knew that fact at the time of the transactions. There is no ground for the assumption that petitioner was 'a purchaser in the ordinary channels of trade'."

In the present case the radios are bought by the public in retail trade.

It thus appears clear that neither the majority nor the minority in the *General Talking Pictures* case intended to depart from the doctrine laid down eleven years before in the *Motion Picture Patents* case, which had expressly overruled *Henry* v. *A. B. Dick Company*, 224 U. S. 1, of five years earlier.

The Fourth Question Presented.

Under this question we assert that it is a misuse of patents to require licensees under a pool of patents to affix restrictive use notices to radio sets sold in retail trade.

Tens of millions of radio sets have been sold to the public bearing a label reading:

> "Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for private, non-commercial use * * * "

Such marking notice would not be required by Hazeltine if it was not actually effective to restrict the uses to which the public puts its radios.

There is no question but that this is an attempt to extend the monopoly of the patents after that monopoly has been exhausted by the sale of the radios to the public.

That a patented device when sold by the patent owner or his licensee passes beyond the limits of the monopoly has been consistently held by this Court for more than 100 years (see Footnote 1 citing cases at 305 U. S. 128). In the case of *United States* v. *General Electric Co.*, 272 U. S. 476 (1926), the Court said at page 489:

> "It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights."

The cases holding that any attempt to extend the monopoly of a patent constitutes a misuse thereof are too recent and too numerous to require extended discussion here. We quote only from *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436 (1940) in which the Court said at page 456:

> "He may not, by virtue of his patent, condition his license so as to tie to the use of the patented device or process the use of other devices, processes or materials which lie outside of the monopoly of the patent licensed; Motion Picture Patents Co. v. Universal Film Mfg. Co., supra; Carbice Corp. v. American Patents Development Corp., 283 U. S. 27, 31, 75 L. Ed. 819, 821; 51 S. Ct. 334; Leitch Mfg. Co. v. Barber Co., 302 U. S. 458, 82 L. Ed. 371, 58 S. Ct. 288; cf. United Shoe Machinery Corp. v. United States, 258 U. S. 451, 462, 66 L. Ed. 708, 719, 42 S. Ct. 363; International Business Machines Corp. v. United States, 298 U. S. 131, 140, 80 L. Ed. 1085, 1091, 56 S. Ct. 701; *or condition the license so as to control conduct by the licensee not embraced in the patent monopoly.* Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20, 57 L. Ed. 107, 33 S. Ct. 9; Interstate Circuit v. United States, 306 U. S. 208, 228 230, 83 L. Ed. 610, 621, 622, 59 S. Ct. 467 * * *." (Emphasis added.)

Hazeltine's license requirement controls the conduct of its licensees by forcing them to apply such a notice restricting use in the attempt to control the conduct of the members of the public purchasing apparatus made by these licensees.

In our view, it constitutes a misuse of pooled patents.

The Fifth Question Presented.

Under this question we assert that a licensee sued for royalties under a pool of 570 patents may, in defense of the

suit, challenge the validity of any of the patents he is charged with using. In this case Hazeltine has charged that four of its 570 patents have been used by Automatic Radio (R. 119-168). It is now well settled that a licensee may challenge validity when patents are being used for a purpose which would constitute a misuse if they are invalid (*Sola* v. *Jefferson*, 317 U. S. 173; *Katzinger* v. *Chicago Metallic*, 329 U. S. 394; *MacGregor* v. *Westinghouse*, 329 U. S. 402).

Certainly, Hazeltine's forcing payment of royalties based on the entire production of its licensees would be a misuse if all its patents were invalid, as constituting an exaction of tribute from an entire industry without any warrant therefor. Automatic Radio should therefore be entitled to attack the validity of the Hazeltine patents asserted against it.

We assert further the right to challenge validity no matter what use is being made of the patents.

In *Pope* v. *Gormully*, 144 U. S. 224 (1892) it was held that a license agreement in which the licensee agreed not to contest the validity of fifty patents, was void and unenforceable because it was contrary to public policy. The Court said:

> "The real question is whether the defendant can estop himself from disputing patents which may be wholly void, or to which the plaintiff may have no shadow of title."

In answering this question, the Court said:

> "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; and it is a serious question whether public policy permits a man to barter

away beforehand his right to defend unjust actions or classes of actions, though, in an individual case, he may doubtless assent that a judgment be rendered against him, even without notice."

The Court further said:

"With regard to all such matters of public policy, it would seem that no man can bind himself by estoppel not to assert a right which the law gives him on reasons of public policy."

And in finally answering the question, the Court said:

"* * * we are of the opinion that a contract not to set up any defense whatever to any suit that may be begun upon fifty different causes of action is in violation of public policy. See, as pertinent to this question, Home Ins. Co. v. Morse, 87 U. S. 20 Wall. 445 (22:365); Doyle v. Continental Ins. Co., 94 U. S. 535 (24:148); Barron v. Burnside, 121 U. S. 186 (30:915)."

Therefore, if this license agreement is interpreted as creating an estoppel against Automatic Radio which prevents it from challenging the validity of the four patents Hazeltine charges it uses, *the license itself is necessarily void* under this authority and may not be enforced. It necessarily follows that Automatic Radio *may* challenge the validity of the patents, *or* should have judgment in its favor because the contract is void.

Indeed, in view of the strong public policy against the unauthorized extension of patent control beyond the limits fixed by the patent, it is believed that any licensee under a patent pool may now challenge validity regardless of any question of misuse. In the case of *Katzinger* v. *Chicago Metallic*, 329 U. S. 394, the Court said at page 400:

"In Scott Paper Co. v. Marcalus Mfg. Co., 326 U. S. 249, 90 L. Ed. 47, 66 S. Ct. 101, it was held that

> even an assignor who had sold a patent issued to itself was free to challenge the validity of the patent and thereby defeat an action for infringement by showing that the invention had been described in an expired patent. In thus emphasizing the necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid, the Court was but stating an often expressed policy that 'It is the public interest which is dominant in the patent system', Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661, 665, 88 L. Ed. 376, 380, 64 S. Ct. 268 (60 U. S. P. Q. 21, 24) and that the right to challenge 'is not only a private right to the individual, but is founded on public policy which is promoted by his making the defense, and contravened by his refusal to make it.' Pope Mfg. v. Gormully, 144 U. S. 224, 235, 36 L. Ed. 414, 418, 12 S. Ct. 632."

This is reenforced by this Court's statement in the *U. S. Gypsum* case, 333 U. S. at 387-8:

> "In an antitrust suit instituted by a licensee against his licensor *we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed, because of the public interest in free competition;* even though the licensee has agreed in his license not to do so. Sola Electric Co. v. Jefferson Electric Co., 317 U. S. 173, 87 L. ed. 165, 63 S. Ct. 172; Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394, 91 L. ed. 374, 67 S. Ct. 416, 424; MacGregor v. Westinghouse Electric & Mfg. Co., 329 U. S. 402, 91 L. ed. 380, 67 S. Ct. 421, 424." (Emphasis added.)

Public policy certainly requires judicial scrutiny of ten patents which have been held to be worthless, plus 560 unadjudicated pooled patents admittedly of even less value, if that is possible, upon which the public is paying millions of dollars a year in royalties and on which patents, and

their successors, the public may have to continue paying in perpetuity unless challenged in this case (*Transparent-Wrap Machine Co.* v. *Stokes & Smith*, 329 U. S. 637).

The citation of *Pope* v. *Gormully* in *Scott Paper* v. *Marcalus* and again in *Katzinger* v. *Chicago Metallic* appears to be of great significance. This reaffirmation of the doctrine of *Pope* v. *Gormully*, 144 U. S. 224 (1892) in the context in which it was cited in the quotation above, seems to leave no doubt of Automatic Radio's right to challenge the validity of Hazeltine's four patents asserted in this action.

Conclusion.

It is accordingly prayed that the petition for writ of certiorari be granted and the judgment below reviewed and reversed.

Respectfully submitted,

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